

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ARGENTINA

PROGRAM TO ENHANCE THE MANAGEMENT CAPACITY OF THE FEDERAL ADMINISTRATION OF PUBLIC REVENUE (AFIP)

(AR-L1282)

LOAN PROPOSAL

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ABBREVIATIONS

AEO	Authorized Economic Operator
AFIP	Administración Federal de Ingresos Públicos [Federal Administration of Public Revenue]
AGN	Auditoría General de la Nación [Office of the Auditor General]
CRM	Customer relationship management
DGA	Dirección General de Aduanas [Customs Administration Department]
DGI	Dirección General Impositiva [Tax Administration Department]
DGRSS	Dirección General de los Recursos de la Seguridad Social [Social Security Department]
GDP	Gross domestic product
ICAS	Institutional Capacity Assessment System
ICB	International competitive bidding
ICMS	Imposto sobre Circulação de Mercadorias e Serviços [Value-added tax in Brazil]
NCB	National competitive bidding
OECD	Organisation for Economic Co-operation and Development
OVE	Office of Evaluation and Oversight
PCU	Program coordination unit
QCBS	Quality- and cost-based selection
SCT	Sistema de Cuentas Tributarias [Tax Accounts System]
SEPA	Sistema de Ejecución del Plan de Adquisiciones [Procurement Plan Execution System]
SIM	Sistema Informático Malvina [Malvina Information System]
UEPEX	Unidades Ejecutoras de Préstamos Externos [External Loan Execution Unit]
VDI	Virtual Desktop Infrastructure
VUCE	Single Window for Foreign Trade
WCO	World Customs Organization

PROJECT SUMMARY

ARGENTINA PROGRAM TO ENHANCE THE MANAGEMENT CAPACITY OF THE FEDERAL ADMINISTRATION OF PUBLIC REVENUE (AFIP) (AR-L1282)

Financial Terms and Conditions				
Borrower: Argentine Republic			Flexible Financing Facility ^(a)	
			Amortization period:	25 years
Executing agency: The borrower, acting through the Federal Administration of Public Revenue (AFIP)			Disbursement period:	5 years
			Grace period:	5.5 years ^(b)
Source	Amount (US\$ million)	%	Interest rate:	LIBOR-based
IDB (Ordinary Capital)	100.0	90.5	Credit fee:	(c)
Local:	10.5	9.5	Inspection and supervision fee:	(c)
			Weighted average life (WAL):	15.25 years
Total:	110.5	100.0	Currency of approval:	U.S. dollars
Project at a Glance				
Project objective/description: The objectives of the program are: (i) to increase tax revenue and social security contributions while reducing compliance costs; and (ii) to improve taxpayer services and assistance, as well as the management of foreign trade.				
Special contractual conditions precedent to the first disbursement of the loan: (i) presentation of evidence that the program coordination unit (PCU) has been established in accordance with the terms agreed upon with the Bank; and (ii) approval of the program Operating Regulations (paragraph 3.4). For special contractual conditions of a fiduciary nature, see paragraph 4.2 of Annex III.				
Exceptions to Bank policies: None				
Strategic Alignment				
Challenges: ^(d)		SI <input type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input checked="" type="checkbox"/>
Crosscutting themes: ^(e)		GD <input type="checkbox"/>	CC <input type="checkbox"/>	IC <input checked="" type="checkbox"/>

^(a) Under the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

^(b) Under the flexible repayment options of the Flexible Financing Facility (FFF), changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life (WAL) of the loan or the last payment date as documented in the loan contract.

^(c) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with applicable policies.

^(d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(e) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problem to be addressed, and rationale

- 1.1 Argentina's fiscal situation is characterized by a primary deficit that is consistently high, exceeding 4% of gross domestic product (GDP) in 2016, with tax burden levels of over 30%.¹ In this context, the Argentine government has launched an agenda of fiscal reforms aimed at lowering expenditures, through a reform of the Fiscal Responsibility Law,² while reducing the tax burden, particularly from the most distortionary taxes.³ The goal of this is to spur investment and job creation.⁴
- 1.2 A key challenge is to raise revenue more efficiently and facilitate the payment process for taxpayers, so as to boost the country's competitiveness. The Federal Administration of Public Revenue (AFIP) is Argentina's main tax collection entity, being responsible for 83% of total national tax revenue. AFIP is a semiautonomous entity that operates within the sphere of the Ministry of Finance.⁵ It is responsible for collecting internal taxes, those stemming from foreign commerce, and social security contributions. Preinvestment studies on AFIP have found that a key problem with its management, and the main problem to be addressed by this operation, is that it has become less effective at monitoring the taxpayer universe and foreign trade operations, while failing to improve service for taxpayers. This can be seen in the drop in voluntary compliance with tax, customs, and social security obligations from 86.35% in 2010 to 84.25% in 2016.⁶ At the same time, the compliance cost for taxpayers⁷ rose, for example, with the increase in the percentage of customs operations subject to red channels⁸ from 17.11% in 2010 to 29.22% in 2016. Taxpayer services also showed stagnation over this period, with the percentage of phone inquiries answered falling from 20.3% in 2006 to 9.8% in 2016. The main causes of this problem include: (i) weak risk management in internal revenue control and auditing and in the customs control strategy based on nonintrusive inspection, as well as weak integrated risk management in the control and auditing of social security funds; (ii) weak information systems at AFIP; and (iii) inadequate taxpayer

¹ [Tax Reform Bill](#).

² The main factor limiting public investment in Argentina is the growth of the national government's current expenditure, which rose by 13 percentage points of GDP between 2007 and 2015. This expenditure growth was influenced by the expansion of weakly targeted subsidies, which reduced the general progressivity of expenditure (Castro, Szenkman, and Lotitto, 2015).

³ The tax system is complex and inefficient and is hindering productivity and investment (IDB, 2016; OECD, 2017; and Artana, 2015). The tax burden stands at 32% of GDP, and revenue was increased in large part with distortionary taxes. The 35% corporate income tax rate is high for international standards (OECD, 2017). The complexity of the tax system is associated with high levels of informality: the size of the informal economy in Argentina is estimated at 25.3% of GDP (Schneider, 2010).

⁴ [Tax Reform Bill](#). Investment in Argentina fell from 19.5% of GDP in 2007 to 14.8% in 2016, which is significantly lower than other countries in the region like Brazil (18%) and Chile (22.7%). At the same time, formal private employment ceased to grow as of 2008 (Fundación de Investigaciones Económicas Latinoamericanas, 2015). Due to the lack of investment, average economic growth over the last five years has come in at just 1% (National Statistics and Census Institute).

⁵ AFIP was created through Decree No. 618/1997 of 10 July 1997.

⁶ This refers to voluntary contributions over total contributions. Source: AFIP.

⁷ According to [World Bank Doing Business](#) indicators, Argentina is ranked 169th in the ease of paying taxes.

⁸ The red channel refers to containers that are physically verified and inspected before being cleared. This entails costs to the private sector estimated at between US\$2,562.5 (minimum) and US\$4,375 (maximum). Consequently, the average cost of import formalities in Argentina is US\$2,320 per container, while the average for Latin America and the Caribbean is US\$1,691. Source: AFIP.

assistance services and a subpar model for management, planning, and development of services in the central areas of AFIP.

- 1.3 **Weakened risk management in internal taxes.** AFIP's ability to track and monitor compliance with tax and customs obligations has weakened.⁹ The view that it has of taxpayers is segmented, as is its control strategy. While there is one centralized database to check the balance that taxpayers owe, this system does not offer a full, real-time view of their situation. This is due to the fact that the calculation and monitoring of balances owed take place in different systems depending on the origin of the balance (internal or customs taxes), taxpayer size (small, medium, and large taxpayers), and the status of the amount owed (outstanding balance or documents issued for collection). Many of these systems have yet to be interconnected,¹⁰ and in the case of small and medium taxpayers, the calculation of taxes owed and corrections to these balances have not been automated, which increases delays and errors when trying to obtain this information.¹¹ Furthermore, the incorporation of certain taxes into the calculation of a taxpayer's total obligation has not been completed, which makes it hard to get the full picture that is sought.¹² Other factors impacting tax control are the complexity of the Tax Accounts System (SCT)¹³ and the limited control of positive balances and their use.¹⁴
- 1.4 As regards audits, the lack of ongoing risk analysis prevents AFIP from having an integrated risk management model, which makes it difficult to fully capitalize on control measures. Some problems that have been detected are the following: (i) the independent identification of evasion risks for tax, customs, and social security obligations, which could potentially lead to separate audits of the same taxpayer; (ii) information sources, such as violation reports and audit histories, that are no longer used sufficiently; (iii) the lack of a standard risk categorization system across the institution; (iv) an inadequate standardization process for criteria on risk analysis methodologies, information sources, and the availability thereof; and (v) the suspension of SCT developments and inducement management, as well as the failure to incorporate new technologies. Throughout 2016 and the first half of 2017,¹⁵ the noncompliance detection rate in audits stood at around 77% on average, a figure that is slightly above the average for Latin America and the Caribbean but that can still be improved to at least 85%, based on Argentina's development level and the OECD's international experience.
- 1.5 AFIP also faces challenges resulting from new international rules on tax information exchanges between countries that agree to exchange information with several countries with which agreements have already been signed (the United States,

⁹ In terms of the effectiveness of AFIP monitoring, audits detecting irregularities that generated potential revenue for AFIP fell from 86.5% of the total in 2006 to 77% in 2016.

¹⁰ The Tax Accounts System (SCT) is fed by other systems with which it shares a limited interface (the Filing of Tax Proceedings, Tax Compliance Monitoring, Returns and Recovery Management, *Mis Facilidades*, Registration, and Value-Added Tax Refund Systems, along with other tax systems).

¹¹ In some cases, the information is obtained once per month, and positive balances from earlier periods do not automatically offset outstanding balances.

¹² Such as the bank account credit and debit tax. Customs fees are not incorporated either.

¹³ This includes: (i) the generation of unnecessary vouchers; (ii) the complexity of voucher registration rules; (iii) the inability to register some vouchers chronologically; (iv) the absence of reports on operational system errors; and (v) the absence of a monitor on business data and system health.

¹⁴ Information on payments on account recorded in tax returns is not validated, nor is information on withholdings and receipts of payment in unvalidated tax returns.

¹⁵ The methodology used for audit plans over the 2008-2015 period had to be reviewed, so only the most recent data under the new methodology is being considered.

Switzerland, and Uruguay). Accordingly, systems and procedures should be adapted to facilitate this type of exchange semiautomatically. Another important control-related challenge is the widespread use of electronic invoicing and its evolution towards electronic tax receipts. This evolution involves expanding the coverage¹⁶ of electronic invoices and making use of this data for control purposes.

- 1.6 The execution of control and monitoring procedures is the responsibility of the regions, agencies, and districts of the Tax Administration Department (DGI) and the regions of the Social Security Department (DGRSS). However, the complexity of the SCT procedures currently in place and the systems that support them generates problems that constitute an excessive burden for these units.
- 1.7 **Inefficiencies in customs control.** International experience shows that modern customs administration needs to strike a balance between facilitation, control, and security demands.¹⁷ Policies implemented under the previous administration led the Customs Administration Department (DGA) to focus excessively on control, to the detriment of the facilitation needed to make the country more competitive. The emphasis on controls also revolves primarily around merchandise, without any further consideration of the profile and degree of compliance of foreign trade operators. Although Argentina was one of the first countries in the region to implement an Authorized Economic Operator (AEO) program,¹⁸ it has been neglected in recent years. Consequently, its current scope is limited as its requirements are difficult and costly to meet.
- 1.8 All of this translates into an above-average level of immediate physical controls. Physical inspections are currently carried out on 42% of import containers, on average, before they clear customs. While this is an improvement over the 48% of operations that were physically inspected in late 2015, it should be noted that in 2000 only 18% of containers were physically checked, with an irregularity detection rate similar to today. Moreover, the DGA is not only working on the percentage of imports checked, but also on the percentage of exports, which inevitably raises the country cost.¹⁹
- 1.9 There is no adequate linkage between the different control methods (nonintrusive, intelligence-based, physical, etc.), nor is there a true integrated risk management for operators. The Malvina Information System (SIM), which supports the operation of the DGA, is technologically outdated, as a result of declining information technology investment over the last few years. It is used as a registration system only and not to monitor operations. There are also deficiencies in customs-specific equipment: it is estimated that AFIP has less than 40% of the required equipment for nonintrusive inspection and trace detection. Lastly, the procedures supporting operations are in

¹⁶ At present, 21% of taxpayers still use paper invoices (Artana, 2017).

¹⁷ Globally, the handling of cargo at border crossings suggested by the World Customs Organization (WCO) combines advance, high-quality information with modern processes and inspection techniques, as well as nonintrusive infrastructure and equipment, all to reduce the trading costs.

¹⁸ The AEO system saves on inspection by certifying trustworthy and formal operators, lowering their risk levels and, in turn, the number of inspections. Operators benefit from the shorter time and lower cost spent on customs formalities, which makes them more competitive (see [IDB study on the impact of the AEO system on exports, Chapter 3](#)). Argentina's AEO certification program did not have a certified operator until 2016. Just recently (26 October 2017), AFIP General Resolution 4150/2017 was adopted to expand the Trustworthy Operators Customs System to include import operations.

¹⁹ According to data from the World Bank *Doing Business* project, the cost to import in Argentina comes to US\$2,320 per container, while the average in Latin America and the Caribbean is US\$1,691.

many cases obsolete and complex and, therefore, need to be exhaustively reviewed and simplified.

- 1.10 The answer to this problem is a significant change in the control strategy. To this end, the DGA has plans to develop a new integrated risk management model to segment and classify operators based on the level of consistency of their information and recorded movements. The model seeks to guide risk-based controls directed at the groups of operators with the weakest consistency indicators. This requires updating the regulatory framework and improving the linkage between information and risk management in coordination with AFIP's internal revenue area and other government entities (inasmuch as selectivity-related improvements to the red channel²⁰ also depend on regulations issued by other ministries). It will also entail promoting customs compliance and strengthening the logistics chain by scaling up the AEO program, along with addressing deficiencies in control processes, with a focus on simplification and service improvement.²¹
- 1.11 **Limited capacity to manage social security contributions.** Like the DGI, the DGRSS, despite having regional offices, has control programs that are essentially centralized (beyond the natural coordination performed by operational and central units). The computer support systems are still incomplete and do not contribute to management, limited as they are to the registration of operations. The data analysis and creation of aggregate information components remain to be finished.²² The procedures are also antiquated and complex and are not always fully documented. A distinction must be made here between collection controls—which should remain centralized—and formality controls for businesses and workers, which need to be decentralized to the DGI and DGRSS regions to take better advantage of regional coverage.²³
- 1.12 **Comprehensiveness of information systems.** The volume of data handled by AFIP has grown exponentially as a result of various digitalization initiatives, such as electronic invoicing. However, investments have not been made in infrastructure to keep pace with this growth.²⁴ Equipment and communication systems are also limited or obsolete, in that they do not fully meet the institution's internal and external demands, nor are they set up to handle the growth in business transactions.²⁵ AFIP

²⁰ The green channel means that additional verifications are not necessary. The orange channel means that documentation is being checked and a document may be requested. The red channel means that merchandise must be inspected.

²¹ The priority areas established by the Office of the President ([Government Objectives](#)) include reengineering customs processes. The Office of the Cabinet Chief holds periodic meetings with all stakeholders in this objective to ensure coordination and oversee the achievement of goals.

²² The noncompliance detection rate in DGRSS monitoring actions has held steady at around 75%.

²³ The size of the informal economy in Argentina is estimated at 25.3% of GDP, with a potential cost in revenue of 7.13% of GDP. See [cost-benefit analysis](#).

²⁴ Over the last decade, the volume of data handled by AFIP has grown exponentially: the number of electronic invoices grew from 4 million to 150 million, and the number of database entries climbed from 5 billion to 460 billion. At the same time, investment in AFIP systems has been less than 1% of the institution's total budget, while the most efficient tax administration agencies in the world invest around 8% (Díaz Yubero, 2017). Less than 10% of the current installed capacity of AFIP databases is available to absorb the exponential growth expected in the years ahead.

²⁵ The main weaknesses detected include: (i) insufficient storage units to meet future demands; (ii) an estimated 10,000 service stations have reached the end of their useful life; (iii) the absence of switches and routers in LAN communication networks; and (iv) the need to update backup systems for central databases and production files.

also needs to update its information technology security systems.²⁶ Lastly, there is a substantial number of pending developments for the various areas of management. This is mainly due to the growing complexity of solutions, which are increasingly cutting across more than one operational area, affecting the development logic. AFIP tax systems are currently based on a set of applications conceived as departmental solutions but are barely integrated at the level of information and work flows.²⁷ All this limits the use of the large quantity of data generated with data mining tools, advanced analytics, big data, or machine learning.

- 1.13 **Taxpayer services, planning, and training.** There is no comprehensive inducement management system,²⁸ which gives rise to a series of inefficiencies in interactions with the taxpayer: the channels of communication are not coordinated (virtual, phone, in-person), contact information is not centralized, and inducement actions do not take into account the tax profile of each payer.²⁹ Functional shortcomings of the tax account also result in inducement actions often being ineffective, as balances owed must be verified manually. In 2016, headway was made on the initial implementation of a taxpayer customer relationship management (CRM) system,³⁰ but it is not yet fully operational: subnational deployment must be completed, and it has to be expanded to all taxes/resources. In addition, there are opportunities to strengthen strategic planning in the institution and develop a new planning management model.³¹ In terms of training, the level of education of AFIP personnel is quite high—above the average of OECD countries.³² Given that fact, only specialized training is required in cutting-edge areas like advanced analytics and data mining.
- 1.14 **Rationale.** The national government requested that the Bank support a program aimed at strengthening AFIP's management capacity. Specifically, the activities planned under this program will assist the national government in achieving its objectives.³³ Out of the 100 priorities set out for the next few years, AFIP is responsible for the economic formalization plan and the plan to reengineer customs processes, in addition to playing a leading role in the plan to streamline processes and procedures. The Bank's experience in Argentina and in the region with programs to shore up tax administration provides the rationale for the intervention in the proposed program. This program is aligned with national and sector policies aimed at fostering economic development, boosting revenue, reducing evasion, and formalizing the economy. The strategy to strengthen information systems is based

²⁶ Key issues are: (i) the absence of a system to detect and analyze advanced threats, (ii) the need to update firewalls distributed in network nodes and web applications; and (iii) the need for authentication software with one-time passwords.

²⁷ AFIP has more than 30 systems vital to its operations that have been developed internally, often on different platforms. On average, the systems are over five years old. The large number of systems and lack of interoperability make it hard to use data effectively.

²⁸ Inducement actions: set of systematized initiatives carried out by the tax administration body to persuade (without legal compulsion) a taxpayer to pay an outstanding obligation.

²⁹ Effectiveness in answering telephone inquiries is only 7.8%, while for inquiries made through online services, it is 93.8%.

³⁰ Customer relationship management (CRM) is a term used generally to describe the systems for managing the customer relationship. The CRM components still missing include: the complaints and suggestions module, the module for handling consultations from social security agencies, the quality of service module, the outbound campaign module, and the customs module.

³¹ The institution does not have an up-to-date strategic plan reflecting current organizational and streamlining challenges (Díaz Yubero, 2017).

³² The State of Tax Administration in Latin America: 2006-2010 (IDB, 2013).

³³ Office of the President - [Government Objectives](#).

on a mixed approach that will employ customized solutions when there are no commercial systems with enough functional coverage, and commercial solutions when there is enough functional coverage.³⁴

- 1.15 **Experiences and lessons learned.** Experience underscores the importance of improving information, tax and customs processes, and associated information technology systems to achieve more effective tax administration. These three components have been strengthened in various tax administration entities in the region over the last few years, for example, through reforms in Brazil, Chile, Mexico, and Uruguay.³⁵ The incorporation of technology in taxpayer services improved levels of voluntary compliance in several Latin American and Caribbean countries.³⁶ The OECD (2012) states that improving taxpayer services for small businesses increases voluntary compliance.³⁷ The program to implement electronic invoices—Nota Fiscal Eletrônica—in the 27 states of Brazil and the Federal District shows a positive impact on increasing the collection of the value-added tax in Brazil (ICMS).³⁸ An assessment of the São Paulo tax receipt program [Programa Nota Fiscal Paulista] concluded that the program had a positive and statistically significant impact on real ICMS collection in the state of São Paulo to the tune of R\$600 million, 12% of the average collected by the state following implementation of the program through October 2014.³⁹ The evaluation conducted by the Office of Evaluation and Oversight (OVE) highlights the need to seek synergies and complementarity between fiscal policy reforms and actions to strengthen administration.⁴⁰ International experience also shows that the most common strategy for improving information systems is a combination of customized applications and commercial solutions.⁴¹ In Argentina, the Institutionalized Support for AFIP Program (1034/OC-AR), whose execution finished in 2007, contributed to the integration of internal revenue, social security, and customs, as well as the modernization of the entity. One factor behind its success was a robust execution unit.⁴²
- 1.16 This operation considers the lessons learned and incorporates improvements in the management of information, tax and customs processes, and associated information technology systems as a key input for more effective risk management. It also incorporates the lessons learned from past operations about having a robust

³⁴ This is consistent with the widespread practices of tax administration entities, where, according to OECD data, 95% of countries use customized systems and commercial solutions jointly. See *Tax Administration 2017 'Comparative Information on OECD and Other Advanced and Emerging Economies'* (OECD, 2017).

³⁵ *The State of Tax Administration in Latin America: 2006-2010* (IDB - Regional Technical Assistance Center for Central America, Panama, and the Dominican Republic (CAPTAC-DR), Inter-American Center of Tax Administrations (CIAT), (2013).

³⁶ *Detailed guidelines for Improved Tax Administration in Latin America and the Caribbean* (United States Agency for International Development, 2013).

³⁷ See *Rethinking Tax Services 'The Changing role of Tax Service Providers in SME Tax Compliance'* (OECD, 2012).

³⁸ The midterm evaluation of the CCLIP-PROFISCO shows that ICMS collection as a percentage of GDP grew more in states with a PROFISCO. From 2009 to 2013, the difference in revenue between the two groups was 6% on average.

³⁹ [Impact of the Nota Fiscal Paulista program on the expansion of tax collection in the state of São Paulo](#). See also: Naritomi, 2016.

⁴⁰ See the OVE evaluation *Comparative Evaluation: Review of Bank Support to Tax Policy and Administration, 2007-2016*.

⁴¹ For a more detailed discussion, see *Tax Administration 2017 'Comparative Information on OECD and Other Advanced and Emerging Economies'* (OECD, 2017) and *Estrategias de desarrollo e implantación de Sistemas Integrados de Administración Financiera* (Uña, 2012).

⁴² OVE, 2007-2008 Ex Post Evaluations Cycle: Evaluation of the Institutionalized Support for AFIP Program (1034/OC-AR).

execution unit (with a clearly defined structure and profiles). The operation also complements the Provincial Management Strengthening Program (3835/OC-AR) in its component on the improvement subnational revenue, as well as the Program for Implementation of the National System for the Argentine International Trade Single Window (3869/OC-AR).

- 1.17 **International evidence.** Rigorous evaluations and the comparative analysis of tax administration entities demonstrates that for these agencies to collect revenue and provide the best service possible to taxpayers and foreign trade operators, they must: (i) improve access to and the quality of available information, i.e., have complete, up-to-date, and automated records, including information from third parties and alternative sources (the Internet/social networks), which eliminates evasion opportunities for taxpayers;⁴³ (ii) have risk-based monitoring models that use high-quality information intensively;⁴⁴ (iii) simplify procedures to facilitate compliance with tax obligations;⁴⁵ (iv) improve taxpayer services;⁴⁶ and (v) take actions to facilitate trade.⁴⁷ As regards the customs subcomponent, the proposed interventions are aligned with the standards and guidelines of the WTO Trade Facilitation Agreement and the WCO Framework of Standards.
- 1.18 **Strategic alignment.** This program is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) in the area of productivity and innovation, given that it improves efficiency and lowers transaction costs associated with tax administration and the fulfillment of tax obligations by taxpayers. It is strategically aligned with the development challenge of economic integration through improvements in the efficiency of customs operations. The program is also aligned with the crosscutting area of institutional capacity and the rule of law through institutional strengthening to improve services for taxpayers and trade operators. It contributes to the Corporate Results Framework 2016-2019 (document GN-2727-6), especially with the impact indicator on the percent of GDP collected in taxes, the indicator on reducing processing times for the international trade in goods and services, and the output indicator on government agencies with strengthened systems to improve public services as well as strengthened accountability institutions by enhancing AFIP taxpayer services and accountability systems. Additionally, the program is consistent with the IDB Country Strategy with Argentina (2016-2019) (document GN-2810-1), particularly with the priority area of improving the business climate and the strategic objective of strengthening government institutions. Lastly, it is consistent with the Fiscal Policy and Management Sector Framework Document (document GN-2831-3), as it relates to improving fiscal equity and social inclusion; the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2), in terms of revenue mobilization capacities; and the

⁴³ Tax evasion rates are up to eight times higher where tax administration entities lack automated instruments to verify taxpayers' sources of income (Slemrod et al., 2015; Pomeranz, 2015; Kleven et al., 2011).

⁴⁴ Using experimental data from the United States, DeBacker et al. (2015) find that auditing increases the voluntary reporting of taxes and, therefore, revenue by 14%. An impact assessment in Spain shows that the availability of information complements audit activities (Almunia and López Rodríguez, 2016).

⁴⁵ When procedures are simplified, payment rates can climb by up to four percentage points (Hallsworth et al., 2014).

⁴⁶ Using experimental data from the United States, Alm et al. (2010) show that an improvement in taxpayer services lowers taxpayer uncertainty regarding the amounts to declare and raises the level of voluntary compliance by 5%.

⁴⁷ Streamlining administrative processing in trade transactions has significant positive effects on the exports of businesses and their countries, and on revenue (Carballo, Graziano, Schaur, and Volpe Martincus, 2016a, 2016b, 2016c; and Carballo, Schaur, and Volpe Martincus, 2016a, 2016b).

Integration and Trade Sector Framework Document (document GN-2715-6), in the area of improving customs operations.

- 1.19 **Beneficiaries.** The 13.5 million taxpayers registered with AFIP⁴⁸ will directly benefit. They will see: (i) improvements in the various interactions they will necessarily have with the administration; (ii) optimization of the services they receive through greater speed and efficiency in the formalities they carry out with the institution remotely, virtually, or in person, in the 36 regional offices or more than 360 agencies, districts, customs offices, service centers, and border crossings in which AFIP provides ongoing services; and (iii) an improvement in their competitiveness from the increased effectiveness of tax, customs, and social security systems and controls. The direct beneficiaries of the program will be: (i) 4.9 million registered citizens who must interact with AFIP to meet their fiscal obligations, and 610,000 formally incorporated companies;⁴⁹ (ii) 38,000 foreign trade operators⁵⁰ and AFIP employees; and (iii) 8 million people with employee status.⁵¹ The program will also ultimately benefit all Argentine citizens inasmuch as improvements in tax administration are linked to economic growth and development.⁵²

B. Objectives, components, and cost

- 1.20 **Objectives.** The objectives of the program are: (i) to increase tax revenue and social security contributions while reducing compliance costs; and (ii) to improve taxpayer services and assistance, as well as the management of foreign trade. To achieve these objectives, the program has the following components:
- 1.21 **Component I. Strengthening AFIP risk management (US\$48.0 million).** The objective of this component is to increase the perceived risk associated with tax evasion among taxpayers and foreign trade operators while reducing compliance costs, through the following activities:
- a. **Subcomponent 1.1. Strengthening control and monitoring in internal revenue administration (US\$12.3 million).** To improve internal revenue administration, AFIP must restore instruments that give it a full picture of the taxpayer, so that it has the information that it needs to select the most appropriate procedures at every step of the tax cycle and mitigate the potential risks that each segment of taxpayers may present. In addition, it must have capabilities in place to fully monitor noncompliance risk and strengthen information management in central areas, so that detection and audit-targeting activities can be concentrated at the central level.⁵³ To do this, financing will be provided under this component for the consulting services and procurements needed for the following outputs: (i) fully implement control of taxpayer obligations in the following areas: (a) simplification of the SCT and monitoring; (b) monitoring of credit balances and their use; (c) monitoring of calculable

⁴⁸ The total number of registered taxpayers as of June 2017 – AFIP. This includes active taxpayers—individuals and corporations—and workers with employee status.

⁴⁹ Individual taxpayers—human persons according to the classification of the new Civil Code—and corporations registered with AFIP as of June 2017.

⁵⁰ Data as of June 2017.

⁵¹ Data as of June 2017.

⁵² Adam and Bevan (2005) and Lee, Park, Seo, and Shin (2017) show links between strengthened revenue collection and growth, and Besley and Persson (2013), between strengthened revenue collection and development.

⁵³ This will help free up resources in regional offices for audits and taxpayer services.

credits;⁵⁴ (d) missing taxes, line items, and features; (e) interaction with other systems; and (f) incorporation of statements of customs charges; (ii) update the technology of the systems that feed the SCT, setting them up to monitor compliance with fiscal obligations;⁵⁵ (iii) implement an integrated method to manage compliance risk, through: (a) the use of risk profiles; (b) an improvement in risk information analysis and tax enforcement in international transactions; (c) an improvement in the selection of cases to be audited; (d) the reengineering of the audit database (eFISCO); (e) the reengineering of e-invoicing systems; and (f) the development of an integrated management system for reimbursement requests; (iv) develop and implement legal monitoring systems; and (v) acquire software to consolidate the stock of technology and provide training in the use of tools such as big data, advanced analytics, and data mining.⁵⁶

- b. **Subcomponent 1.2. Strengthening customs controls and the new strategy for control and facilitation of foreign trade (US\$32.7 million).** This includes financing for the consulting services and procurements needed for the following outputs: (i) develop the Integrated Risk Management Model;⁵⁷ (ii) update SIM technology, setting it up to monitor foreign trade operations, while ensuring its interoperability with the SCT and its integrated risk management module, as well as its linkage to the Single Window for Foreign Trade (VUCE); (iii) update technology infrastructure,⁵⁸ including building renovations; and (iv) the new border assistance system and strengthen the AEO program.

- c. **Subcomponent 1.3. Strengthening social security resource control and monitoring (US\$3 million).** This includes financing for the consulting services and procurements needed to: (i) complete the development of the online calculation of large taxpayer social security obligations, incorporating controls to register withholding agents, and the calculation of these obligations in their tax returns; (ii) update the technology of the digital payroll ledger and simplify the record entry process; (iii) develop the Current Account for Provinces; and (iv) develop individual taxpayer electronic surveying and withholding control.

- 1.22 **Component II. Strengthening AFIP information systems (US\$47.6 million).** The objective of this component is to support the adaptation of the institution's technological architecture model based on the new business strategy, in three main ways: (i) update Data Center systems and software;⁵⁹ (ii) procure equipment to

⁵⁴ This refers to the correct calculation of potential tax credits.

⁵⁵ This includes: MAW reengineering; reengineering of tax systems applications; Master Taxpayer Registry; Direct Revenue System; reengineering of Datamart MATT; SIAP reengineering; OSIRIS; AcreTa (Tardy Accreditation); and MulAT (Multiple Tax Administrations).

⁵⁶ The level of education of AFIP personnel is very high, above the average for OECD countries. See IDB (2013), *State of Tax Administration in Latin America: 2006-2010*.

⁵⁷ This includes: (i) principles; (ii) classification by risk area; (iii) classification of customs risk by origin; (iv) risk response actions; (v) customs risk category; (vi) risk assessment methodology; (vii) indicators to estimate the efficiency of customs control procedures; (viii) compliance management model; (ix) creation of the risk matrix; and (x) self-assessment of the risk management process.

⁵⁸ This refers to updating the Wide Area Network. Currently, many customs checkpoints only have an eight-kilobyte connection speed. It also includes updating computer hardware, biometric control, and building renovations.

⁵⁹ This includes the procurement of: (i) a storage unit with a PT estimated capacity and with five years of support; (ii) work stations; (iii) drive backups for databases; and (iv) Virtual Desktop Infrastructure (VDI). The majority of software solutions will be customized.

improve communications;⁶⁰ and (iii) procure software and services for information technology security.⁶¹

- 1.23 **Component III: Improving service and assistance for taxpayers and foreign trade agents (US\$9.4 million).** The program will support an improvement in public relations management through the Institutional Assistance Management System. This system will help organize assistance, record contacts with citizens, and provide employees with detailed information on citizens and their profiles, additional data extracted from outside organizations, access to assistance tools for inquiries, and direct interaction with the services related to the formality at hand. It will also offer information campaign modules for taxpayers and information on the website to answer frequently asked questions. The concept of the digital taxpayer will gain ground, as will the importance of the digital channel, inasmuch as the largest number of formalities possible will be done by computer. The outputs to be financed include: (i) complete the development of the CRM in the integration of information, the complaints and suggestions module, the module for handling consultations from social security agencies, the quality of service module, the outbound campaign module, and the customs module; (ii) incorporate new processes, media, and technologies and reshape the role of AFIP subnational branches/agencies; (iii) procure software for new mobile applications for complaints and travelers; and (iv) a new management, planning, and organization model that includes the design and implementation of a strategic plan, actions to streamline procedures, and interoperability with other organizations.
- 1.24 **Program administration (US\$5.5 million).** Financing will be drawn from the program administration budget for the creation and operation of the program coordination unit (PCU), as well as for report preparation and contingencies.

C. Key results indicators

- 1.25 **Expected impacts and outcomes.** The expected impact is an increase in the tax and nontax revenue collected by AFIP.⁶² The expected outcomes of the project are: (i) an increase in voluntary compliance in the payment of obligations; (ii) an increase in the noncompliance detection rate during inspection and audit actions; (iii) a reduction in controls associated with red channel operations; and (iv) efficiency in the management of complaints and suggestions from the public (see Annex II – Results Matrix).
- 1.26 **Economic evaluation.** The program team carried out a [comparative financial cost-benefit analysis](#), considering only those actions for which there is a high degree of certainty that specific results having a significant impact will be generated. An internal rate of return of 274.3% and a net present value of US\$1.904 billion were estimated. The sensitivity analyses support high rates of return. The sensitivity analyses show that the internal rate of return remains above the critical threshold of 12%, even in the case of significant downside scenarios for the main assumptions.

⁶⁰ This includes: (i) updating network assets (routers/switches in facilities); (ii) updating wireless network assets and implementing new WiFi areas; (iii) updating and centralizing access to the public telephone network; (iv) implementing new connectivity plans; (v) using renewable energy; and (vi) procuring cell phones and mobile services.

⁶¹ This includes the procurement of: (i) an advanced threat detection and analysis system; (ii) firewalls; (iii) a cloud-based DDoS mitigation platform; (iv) web applications firewall platform; (v) a software token; (vi) an update to the Hardware Security Module (HSM); (vii) IBM QRadar (SIEM); and (viii) Micro Focus Fortify.

⁶² Efforts to increase revenue have been affected by tax cuts enacted by Congress in December 2017, including a reduction in the marginal corporate income tax rate from 35% to 25%.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 **Program resources and disbursement schedule.** The total cost of the program is US\$110.5 million, of which US\$100 million will be financed from the Bank's Ordinary Capital (OC) and the remaining US\$10.5 million will come from the local counterpart contribution as set out in Table 1. The financing instrument will be a specific investment loan.

Table 1. Costs per component (US\$ million)

Component	IDB	Local	Total
I. Strengthening AFIP risk management	43.2	4.8	48.0
1.1. Strengthening control and monitoring in internal revenue administration	11.1	1.2	12.3
1.2. Strengthening customs controls and the new strategy for control and facilitation of foreign trade	29.4	3.3	32.7
1.3. Strengthening social security resource control and monitoring	2.7	0.3	3.0
II. Strengthening AFIP information systems	42.8	4.8	47.6
III. Improving service and assistance for taxpayers and foreign trade agents	8.5	0.9	9.4
Program management and administration	5.5	0.0	5.5
Total	100.0	10.5	110.5

- 2.2 Disbursements will be made within five years from the date on which the loan contract is signed, in accordance with the disbursement schedule shown in Table 2.

Table 2. Annual financing (US\$ million)

Source of financing	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Financing	21.2	40.4	25.7	10.9	1.8	100.0
Local contribution	2.2	4.3	2.7	1.1	0.1	10.5
Total	23.4	44.7	28.4	12.0	1.9	110.5
%	21.2	40.5	25.8	10.8	1.7	100.0

B. Environmental and social risks

- 2.3 In accordance with the criteria established in the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703), this program has been classified as a category "C" operation. Inasmuch as it is an institutional modernization program for a tax administration entity, neither construction works nor physical infrastructure will be financed; thus, no risks associated with negative environmental impact are anticipated. No exceptions to Bank policies are expected.

C. Fiduciary risks

- 2.4 During program design, an institutional capacity assessment of AFIP was done using the Institutional Capacity Assessment System (ICAS), which showed a low fiduciary risk at the level of the executing agency. There is, however, a medium risk in the fiduciary aspects of procurement and financial management that delays in program execution will occur, due to the executing agency's limited knowledge of the Bank's procurement policies. To mitigate this risk, the following is envisaged:

(i) planning the operation appropriately, identifying critical outputs to anticipate procurement needs; (ii) specifying the coordination flow between the technical and fiduciary areas; (iii) equipping the PCU with sector and fiduciary specialists who have the technical qualifications to ensure that the preparation of bidding documents is proper and thorough; and (iv) training sessions and technical assistance from the Bank to strengthen the capacities of the execution unit within AFIP.

D. Other project risks and key issues

- 2.5 During the program's identification and analysis process, medium-level risks were identified. These risks are: (i) in public management and governability, those associated with startup delays due to delays in the issuance of decrees by the Argentine government to approve the program, which are being mitigated by AFIP through close collaboration with the Office of the Cabinet Chief and the Ministry of Finance, who are in charge of the decree approval process; (ii) possible delays in execution caused by coordination challenges between the different AFIP areas, which will be mitigated through the creation of an execution unit working directly under the Federal Administrator⁶³ to assess performance in each area; and (iii) delays in execution as a result of resistance to change among affected personnel and taxpayers and difficulty adapting to new technology, which will be mitigated through a consulting assignment to help manage this change and hold workshops to disseminate and explain the new procedures and tools.
- 2.6 **Sustainability.** AFIP has a Systems and Telecommunications Division with the structure and budget to maintain the equipment and systems. This contributes to the sustainability of information technology procurement and system solutions financed by the program.⁶⁴

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The borrower will be the Argentine Republic, and the executing agency will be the Federal Administration of Public Revenue (AFIP). A program coordination unit (PCU) will be created for this purpose⁶⁵ that will be in charge of the general and technical coordination of all activities related to program execution. The main roles of the PCU include: (i) planning the budgetary and financial execution of the program; (ii) handling the technical aspects of the program, including the preparation of technical documents for bidding, contracting, and supervision; (iii) drafting reports for the Bank; (iv) supervising the bidding and procurement processes for goods, the bidding and contracting processes for works, and the selection and contracting processes for services for the program, in accordance with the procurement plan and Bank policies; (v) performing accounting and file control; (vi) ensuring and coordinating fulfillment of the contractual clauses established in the loan contract; (vii) monitoring and evaluating the results and the targets and indicators set out in

⁶³ The Federal Administrator is the highest AFIP authority.

⁶⁴ The Systems and Telecommunications Division has units of: (i) development; (ii) tests and standardization; (iii) quality control; and (iv) technical support and maintenance.

⁶⁵ The PCU will help strengthen institutional and management capacity through: (i) execution that professionalizes documentation for administrative and technical processes; and (ii) inter- and intra-institutional coordination that facilitates proper execution of the program.

- the Results Matrix; and (viii) drafting and monitoring the annual work plans, procurement plan, and multiyear execution plan.
- 3.2 The PCU will have at least the following profiles: (i) a director; (ii) an internal revenue specialist in charge of coordinating Subcomponents 1.1 and 1.3 and Component III; (iii) a customs specialist responsible for coordinating Subcomponent 1.2; (iv) an information and communications technology specialist in charge of coordinating Component II; (iv) a financial specialist; and (v) a procurement specialist; in addition to any technical and/or administrative staff needed for the PCU.
- 3.3 The coordinators for each component and subcomponent will be in charge of technical support for program-related actions.
- 3.4 **Special contractual conditions precedent to the first disbursement of the loan proceeds: (i) presentation of evidence that the program coordination unit (PCU) has been established in accordance with the terms agreed upon with the Bank; and (ii) approval of the program Operating Regulations.** These conditions are necessary to ensure that the operational, fiduciary, and institutional accountability aspects that are required for orderly implementation and execution of the program are in place.
- 3.5 **Retroactive financing.** The Bank may retroactively finance, as a charge against the loan proceeds, up to US\$10.5 million (10% of the proposed loan amount) in eligible expenditures made by the borrower prior to the loan approval date in the categories of works, goods, nonconsulting services, and consulting services, provided that requirements substantially analogous to those established in the loan contract have been met, which includes compliance with Bank safeguard policies. Such expenditures must have been incurred on or after the project profile approval date (18 October 2017), but in no case more than 18 months prior to the loan approval date.
- 3.6 **Procurement and financial management.** Annex III presents the fiduciary arrangements for execution in terms of disbursement modalities, procurement and financial management systems, and audit arrangements. The contracting of works and procurement of goods, as well as the contracting of consultants, all chargeable against the loan for the operation, will be carried out in accordance with the Policies for the Procurement of Goods and Works financed by the IDB (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants financed by the IDB (document GN-2350-9) of March 2011, and with the specific requirements established in the loan contract. The procurement plan will be managed through the Procurement Plan Execution System (SEPA).
- 3.7 **Disbursements.** The Bank will transfer the proceeds to an account that will be opened by AFIP exclusively for the program. The disbursement modality will be advances based on real liquidity needs. Preferably these advances will be made every six months, once justification has been provided for at least 80% of the advanced amount. Accountability report forms and the financial planning spreadsheet will be submitted as documentation. Payment reimbursements or direct payments to suppliers can also be made. Financial management will be carried out through the External Loan Execution Unit Management (UEPEX) System. Documentation review will be on an ex post basis.
- 3.8 **Audits.** The executing agency will submit audited financial statements for activities financed by the program and an audited report on these statements annually and at

program completion. These reports will be submitted within 120 days after the close of the fiscal year, with the final report being submitted 120 days after the last disbursement, in accordance with the Bank's policies. Midterm reports may be submitted at the request of the Bank. To this end, it is recommended that both the Office of the Auditor General (AGN) and independent auditing firms be contractually eligible to perform program audits.

B. Summary of arrangements for results monitoring

- 3.9 **Monitoring system.** The program will be monitored through the following instruments: the multiyear execution plan, annual work plan, semiannual reports that will include the project monitoring report (PMR) as a chapter, and the on-the-ground supervision plan. This will be complemented with the periodic update of the risk analysis done during the design phase of the operation. Resources for monitoring and evaluation are included as part of the program. To monitor fiduciary aspects, the execution unit will continue using country systems that have already been implemented and are satisfactory to the Bank. The required financial reports will be the financial execution plan for the 180 days following the request for advances and the audited financial statements. Procurement monitoring will be based on the SEPA. To monitor environmental and social requirements, a semiannual report that is satisfactory to the Bank in form and substance will be submitted. See the [Monitoring and Evaluation Plan](#).
- 3.10 The program will include a midterm and final evaluation. The PCU will prepare and send a midterm report to the Bank within 90 days from the date on which 50% of the loan proceeds have been disbursed, or 36 months into the execution period, whichever occurs first. It will also send the Bank a final evaluation that will serve as input for the project completion report (PCR) within 90 days from the date on which 95% of the loan proceeds have been disbursed.
- 3.11 **Evaluation.** An evaluation of the main results of the program will be conducted based on the data presented in the Results Matrix (Annex II). Resources have been set aside specifically for the evaluation activity. As part of the program's final evaluation, an ex post economic analysis (cost-benefit) will be conducted to validate the social rate of return calculated through the Economic Analysis section. To do this, fulfillment of the cost and benefit assumptions included in this analysis will be verified. This will include the timely execution of components with respect to the expected activities, outputs, amounts, and timeframes, as well as fulfillment of assumptions on operating and maintenance costs, as well as estimated net benefits. The evaluation will determine whether there has been: (i) an increase in revenue from the improved management of the value-added tax; and (ii) savings resulting from fewer red channel operations. Evaluation work will be contracted out to a qualified consulting firm with terms of reference agreed upon with the Bank.

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Productivity and Innovation -Economic Integration -Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Public agencies' processing times of international trade of goods and services * -Percent of GDP collected in taxes (%) -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)* -Accountability institutions strengthened (#)*	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	GN-2870-1 Institutional strengthening of government.	Improve the business environment through improving the efficiency of the state.
Country Program Results Matrix	The operation is scheduled for CPD 2018 (AR-O0002)	The intervention is included in the 2018 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability	Evaluable	
3. Evidence-based Assessment & Solution	9.6	
3.1 Program Diagnosis	3.0	
3.2 Proposed Interventions or Solutions	3.6	
3.3 Results Matrix Quality	3.0	
4. Ex ante Economic Analysis	10.0	
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	4.0	
4.2 Identified and Quantified Benefits	1.5	
4.3 Identified and Quantified Costs	1.5	
4.4 Reasonable Assumptions	1.5	
4.5 Sensitivity Analysis	1.5	
5. Monitoring and Evaluation	7.1	
5.1 Monitoring Mechanisms	2.5	
5.2 Evaluation Plan	4.6	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Medium	
Identified risks have been rated for magnitude and likelihood	Yes	
Mitigation measures have been identified for major risks	Yes	
Mitigation measures have indicators for tracking their implementation	Yes	
Environmental & social risk classification	C	
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)		
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Gender Equality		
Labor		
Environment		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan		

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The objectives of the program are: (i) strengthen tax collection, customs and social security contributions by reducing compliance costs; and (ii) improve service and attention to the taxpayer and foreign trade operators.

The POD presents the problems that will be addressed in the project, as well as their main causes. The project identifies as the main problem as the low effectiveness of the management of the AFIP: (a) in the optimal control of the universe of taxpayers and the foreign trade operations, and (b) inadequate taxpayer attention.

The main causes identified are: (i) weakness in risk management related to; (a) the control and supervision of internal taxes, (b) the strategy of customs controls based on non-intrusive methods and (c) the management of integral risk and the control and supervision of social security resources; (ii) weakness in the information systems of AFIP; and (iii) inadequate taxpayer services and the management, planning and service development model of the central areas of the AFIP.

The main beneficiaries of the project, the taxpayers registered in the AFIP, are clearly specified. The project presents adequate evidence of internal (but not external) validity for the proposed solutions. The project's vertical logic is clear and well specified. The Result Matrix is adequately constructed and contains the required elements for monitoring the project.

The program includes a cost-benefit analysis (CBA) from the financial perspective of the state. The benefits are quantified as additional revenue. Costs are quantified with the loan amount to finance products. The analysis estimates a Net Present Value (NPV) of 1,904.79 million US\$. The economic benefits have been clearly quantified. The assumptions used are clearly presented and a sensitivity analysis has been performed undertaking variations in key assumptions.

The program includes a satisfactory monitoring plan. The project has identified and adequately addressed the monitoring and evaluation requirements and the data availability. The project supports the measurement of results in an ex-post cost-benefit analysis methodology, whose attribution is based on a theoretical level.

The overall risk rating of the program is rated medium. Mitigation measures have been identified and have appropriate monitoring indicators.

RESULTS MATRIX

Project Objective:	The objectives of the program are: (i) to increase tax revenue and social security contributions while reducing compliance costs; and (ii) to improve taxpayer services and assistance, as well as the management of foreign trade.
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EXPECTED IMPACT

Indicators ¹	Unit of measure	Baseline		Targets		Means of verification	Observations
		Value	Year	Value	Year		
<u>EXPECTED IMPACT</u>							
Tax and nontax revenue/national GDP	%	25.22%	2017	25.26%	2022	AFIP revenue statistics published on the website	The main contributions included are income tax, current account debit and credit tax, value-added tax, and social security contributions. The evaluation will determine how much output growth is attributable to the program, taking into account changes in tax policy.

EXPECTED OUTCOMES

Expected Outcomes	Unit of measure	Baseline		Intermediate measures		Targets		Means of verification	Observations
		Value	Year	Value	Year	Value	Year		
EXPECTED OUTCOME									
Outcome 1 Voluntary payments/Total	%	84.2%	2016	85.0%	2020	85.5%	2022	AFIP revenue statistics published on the website	Voluntary payments refer to those that do not require any compulsion or inducement.
Outcome 2 Regular audits finalized with a fiscal interest by DGI/Regular audits by DGI	%	77%	2016	82%	2020	85.5%	2022	Idem	Audits with a fiscal interest for DGI refers to those that find obligations that were not fully met.
Outcome 3 Foreign trade operations through the red channel/Total operations	%	30%	2016	22%	2020	15%	2022	AFIP Annual Reports published on the website	Red channel refers to operations that involve a physical inspection of containers.

¹ These targets were set based on the experience of other countries with similar interventions and Argentina's own levels prior to the decline over the last few years. Tax evasion rates are up to eight times higher where tax administration entities lack automated instruments to verify taxpayers' sources of income (Slemrod et al., 2015; Pomeranz, 2015; Kleven et al., 2011). DeBacker et al. (2015) find that auditing increases voluntary tax reporting by 14%. When procedures are simplified, payment rates can climb by up to four percentage points (Hallsworth et al., 2014).

Expected Outcomes	Unit of measure	Baseline		Intermediate measures		Targets		Means of verification	Observations
		Value	Year	Value	Year	Value	Year		
Outcome 4 Phone calls correctly handled in the call center/total phone calls received in the call center.	%	7.8%	2016	15%	2020	25%	2022	Idem	Phone calls handled correctly means that the taxpayer calling the center is able to get somebody on the line.

OUTPUTS

Outputs	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Final target	Means of verification	Observations
Component I. Strengthening AFIP risk management									
Subcomponent 1.1. Strengthening control and monitoring in internal revenue administration									
Output 1.1.1: SCT reformed	System	0	0	1	0	0	1	AFIP Technical Report verifying implementation of the new SCT	The system includes software and upgraded processes.
Output 1.1.2: No. of updated tax information technology systems	Systems	0	0	3	3	3	9	Idem, verifying implementation of the systems	The systems include: Web applications, tax systems, the Taxpayer Registry, the Direct Revenue System, Datamart MATT, SIAP, OSIRIS, AcreTa, and MulAT.
Output 1.1.3: Integrated audit system and integrated risk profile developed and implemented	Systems	0	0	3	3	2	8	Idem	Systems for: risk profile, risk analysis and tax enforcement in international transactions; audit selection, e-FISCO, SEFI, sector cases, electronic registration and invoicing, and integrated management of tax reimbursement or refund requests. The systems include software and upgraded processes.
Output 1.1.4: Development and implementation of legal monitoring system	Systems	0	0	1	2	0	3	Idem	Systems for debt collection, legal action (criminal module), nontax legal action. The systems include software and upgraded processes.
Output 1.1.5: Procurement of new technology (data mining and training)	Software	0	0	1	1	0	2	Idem, verifying that software is procured and working correctly	Each system includes training.
Output 1.1.6: Training in new technology	Individuals	0	50	50	50	0	150	AFIP Technical Report	

Outputs	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Final target	Means of verification	Observations
Subcomponent 1.2. Strengthening customs controls and the new strategy for control and facilitation of foreign trade									
Output 1.2.1: Integrated risk model	System	0	1	0	0	0	1	AFIP Technical Report verifying implementation of the systems	Includes strengthening the AEO program and its link to VUCE.
Output 1.2.2: Updated SIM	System	0	0	0	1	0	1	Idem	Includes software and procedural changes.
Output 1.2.3: Updated computer hardware	Stations	0	0	2	2	0	4	Idem	
Output 1.2.4: Number of ports with improved connectivity	Ports	0	0	1	1	0	2	Idem	
Output 1.2.5: Building renovations	Renovated buildings	0	0	25	25	0	50	Idem	
Output 1.2.6: Border Assistance and AEO System	System	0	0	1	0	0	1	Idem	Includes software procedural changes.
Subcomponent 1.3. Strengthening social security resource control and monitoring									
Output 1.3.1: Online General Employers System for large taxpayers	System	0	1	0	0	0	1	AFIP Technical Report verifying implementation of the systems	Includes software and procedural changes
Output 1.3.2: Digital wage ledger	System	0	0	1	0	0	1	Idem	
Output 1.3.3: Simplified registration	System	0	0	1	0	0	1	Idem	
Output 1.3.4: Current Account for Provinces	System	0	0	1	0	0	1	Idem	
Output 1.3.5: Individual taxpayer electronic surveying	System	0	1	0	0	0	1	Idem	
Output 1.3.5: Registration and control of withholdings	System	0	0	1	0	0	1	Idem	
Component II. Strengthening AFIP information systems									
Output 2.1.1: Storage unit	Unit	0	0	1	0	0	1	AFIP Technical Report verifying that it is procured and working correctly.	
Output 2.1.2: Work stations	Stations	0	5,000	5,000	0	0	10,000	AFIP Technical Report	
Output 2.1.3: Backup solution	Software	0	0	1	0	0	1	Idem, verifying that software is procured and working correctly	
Output 2.1.4: VDI solution	Software	0	1	0	0	0	1	Idem	
Output 2.1.5: Gateway software	Software	0	1	0	0	0	1	Idem	
Output 2.1.6: Servers	Servers	0	0	350	0	0	350	Idem	

Outputs	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Final target	Means of verification	Observations
Output 2.1.7: Contingency site	Site	0	1	0	0	0	1	AFIP Technical Report verifying that the site has been procured and is working correctly.	
Output 2.2.1: Updated routers in LAN networks	Installed routers	0	0	100	50	0	150	AFIP Technical Report	
Output 2.2.2: WiFi software	Software	0	1	0	0	0	1	Idem, verifying that software is procured and working correctly	
Output 2.2.3: Telephone access technology	Software	0	0	1	0	0	1	Idem, verifying that software is procured and working correctly	
Output 2.2.4: Connectivity nodes	Nodes	0	5	5	0	0	10	Idem	
Output 2.2.5: Renewable energy equipment	Solar panels	0	0	1	0	0	1	Idem	
Output 2.2.6: Cell phone services	Cell phones	0	2,000	2,000	0	0	4,000	Idem	
Output 2.2.7: CCTV system	Software	0	1	0	0	0	1	Idem, verifying that software is procured and working correctly	
Output 2.3.1: Advanced threat detection system	Software	0	1	0	0	0	1	Idem	
Output 2.3.2: DDoS platform	Platform	0	0	1	0	0	1	AFIP Technical Report	
Output 2.3.3: Updated firewall	Firewall	0	0	1	1	0	2	Idem	
Output 2.3.4: Token	Token	0	0	1	0	0	1	Idem	
Output 2.3.5: IBM QRadar	Software	0	0	0	1	0	1	Idem, verifying that software is procured and working correctly	
Output 2.3.6: Micro Focus	Software	0	0	0	1	0	1	Idem	
Output 2.3.7: HSM update	Software	0	0	0	1	0	1	Idem	
Output 2.3.8: Information technology security software	Software	0	0	1	0	0	1	Idem	
Component III. Improving service and assistance for taxpayers and foreign trade agents									
Output 3.1: CRM	System	0	0	1	0	0	1	AFIP Technical Report	This includes software and procedural changes.
Output 3.2: New customer service media and technologies	Software	0	2	0	0	0	2	Idem, verifying that software is procured and working correctly	This includes: (i) incorporating new processes, media, and technology and reshaping the roles of AFIP subnational branches/agencies; and (ii) two new mobile applications for complaints and for travelers.

Outputs	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Final target	Means of verification	Observations
Output 3.3: Management and planning model	Model	0	0	1	0	0	1	Idem	This includes the design and implementation of a new strategic plan, actions to cut red tape, and interoperability with other organizations.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Argentina
Project number: (AR-L1282)
Name: Program to Enhance the Management Capacity of the Federal Administration of Public Revenue (AFIP)
Executing agency: Federal Administration of Public Revenue (AFIP)
Fiduciary team: Ana Niubó and Marisol Pinto Bernal (FMP/CAR)

I. EXECUTIVE SUMMARY

- 1.1 The program will be executed by the Federal Administration of Public Revenue (AFIP), which will create a program coordination unit (PCU) for this purpose.
- 1.2 Using the Institutional Capacity Assessment System (ICAS), the Bank assessed the executing agency's capacity to plan, execute, and implement resource control actions and determined that it has suitable operational, technical, and human resource capacity to execute the program satisfactorily.
- 1.3 AFIP does not have experience executing loans with multilateral institutions.
- 1.4 The program does not include financing from other multilateral institutions.

II. THE EXECUTING AGENCY'S FIDUCIARY CONTEXT

- 2.1 The fiduciary systems that will be used for program execution are the budgetary system through the Integrated Financial Information System and the External Loan Execution Unit (UEPEX).
- 2.2 For the procurement of goods and services, the PCU will use Bank policies for centralized purchases.

III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 3.1 An analysis of the executing agency's capacity to execute the loan was carried out using the ICAS methodology. From that analysis, it was determined that there is a low risk for operation management, but since the executing agency does not have experience with the Bank's policies and procedures or with programs financed by international organizations, the handling of fiduciary aspects (financial and procurement) is classified as medium risk. Table 1 summarizes the risks found.
- 3.2 Based on ICAS, the applicable supervision modality for financial and procurement management has been determined. The initially established supervision modality may vary during program execution depending on the evaluations performed.

Table 1. Fiduciary Risks

Institutional Capacity and Fiduciary Risk			
Institutional Capacity		Satisfactory	Tool: ICAS
Fiduciary Risks		Medium	Tool: ICAS
Risk type	Risk	Classification	Mitigation actions
Financial management	Delays in financial execution	Low	<ul style="list-style-type: none"> • Training in IDB financial management policy • Training in UEPEX
Risk type	Risk	Classification	Mitigation actions
Procurement	Delays in program execution due to the executing agency's limited knowledge of the Bank's procurement policies	Medium	<ul style="list-style-type: none"> • Conduct appropriate planning for the operation, identifying its critical outputs in order to anticipate procurement needs far enough in advance. • Specify the flow of coordination between the technical and fiduciary areas. • Equip the PCU with sector and fiduciary specialists that have the technical qualifications to ensure that the drafting of bidding documents is proper and thorough. • Training sessions and technical assistance for the Bank to strengthen the capacities of the executing agency within AFIP.

IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS

- 4.1 To streamline contract negotiations with the project team and, above all, the legal team, below are the agreements and requirements to be considered, as applicable, in the Special Provisions or the Sole Annex, which may be updated or amended during program execution, as appropriate, and with prior documentation and authorization from the Bank.
- 4.2 **Special contractual condition precedent to the first disbursement of the loan proceeds: presentation of the disbursement plan for the first six months of program execution.** The Institutional Capacity Assessment System (ICAS) revealed a low fiduciary risk at the level of the executing agency. There is, however, a medium risk in the fiduciary aspects of procurement and financial management that delays in program execution will occur, due to the executing agency's limited knowledge of the Bank's procurement policies. In this context, this condition is warranted to ensure appropriate planning of activities and avoid delays in execution.
- A. Disbursement management**
- 4.3 The executing agency will present the program financial planning in accordance with the guidelines agreed upon between the Bank and the country. The minimum percentage required to replenish the advance of funds will be 80%.
- 4.4 The exchange rate applicable for accounting will be stipulated in Article 4.10(b)(i) of the loan contract. To determine the equivalency of expenditures incurred in local currency chargeable against the local contribution or the reimbursement of expenditures chargeable against the loan, the agreed upon exchange rate will be the exchange rate in effect on the first business day of the month of the payment. Given the limitations of the UEPEX system, the exchange rate applied for conversion of disbursements into local currency will be used for expenditures made with IDB funds and with local counterpart funds ("pesification").

B. Financial supervision

- 4.5 In order to retain flexibility and be able to adjust the loan portfolio to the audit capacity of the Office of the Auditor General (AGN), it is recommended that both the AGN and independent firms be contractually eligible to conduct audits of the program.
- 4.6 In addition to the reports required for processing disbursements and the annual audit, a financial plan will be requested for the program's financial supervision.
- 4.7 Other specific requirements of project financial management to be established in the contract or agreement that will be signed with the Bank: Disbursements will be made in accordance with Articles 4.03, 4.04, 4.05, 4.06, and 4.07 of the General Conditions of the Loan Contract.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

A. Procurement execution

- 5.1 The Policies for the Procurement of Goods and Works financed by the IDB (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants financed by the IDB (document GN-2350-9) of April 2011 will be applied.
- 5.2 Of the country subsystems approved by the Bank, the information system will be used, as will any subsystems set up in the future with the conditions that are applicable to them.
- 5.3 **Procurement of works, goods, and nonconsulting services.**¹ Contracts under the program that are subject to international competitive bidding (ICB) will be executed using the standard bidding documents issued by the Bank. Those subject to national competitive bidding (NCB) will be executed using the country bidding documents agreed upon with the Bank. The project sector specialist will be responsible for reviewing the technical specifications of procurement during preparation of the selection processes. No direct contracting is anticipated.
- 5.4 **Selecting and contracting of consultants.** Contracts generated under the program will be executed using the standard request for proposals issued or agreed upon by the Bank. The project sector specialist will be responsible for reviewing the terms of reference for the contracting of consulting services. No direct contracting is anticipated.
- 5.5 **Selection of individual consultants.** Individual consultants will be selected on the basis of their qualifications for the assignment through comparison of the qualifications of at least three candidates in accordance with document GN-2350-9, Section V, paragraphs 5.1 and 5.4. For the purpose of renewing the service contracts of consultants that will be in the execution unit, approval by the program's general coordinator of the performance evaluation, which must be, at a minimum, satisfactory, will suffice. When the direct selection procedure can be applied, the

¹ Policies for the Procurement of Goods and Works financed by the IDB (document GN-2349-9), paragraph 1.1: Services other than consulting services are treated similarly to goods.

executing agency will submit to the Bank the list of consultants that are already performing work for this program and will continue to do so, in accordance with Section V, paragraph 5.4(a) of the abovementioned policies. The project sector specialist will be responsible for reviewing the terms of reference for the contracting of consulting services.

- 5.6 **Recognition of expenditures, retroactive financing, and advance procurement.** The Bank may retroactively finance, as a charge against the loan proceeds, up to US\$10.5 million (10% of the proposed loan amount) in eligible expenditures made by the borrower prior to the date of loan approval in the categories of works, goods, nonconsulting services, and consulting services, provided that requirements substantially analogous to those established in the loan contract have been met, which includes compliance with the Bank's safeguard policies. Such expenditures must have been made on or after the project profile approval date (18 October 2017) but in no case more than 18 months prior to the loan approval date.

Table 2. Thresholds for International Bidding and International Short List

Works			Goods			Consulting services	
International competitive bidding	National competitive bidding	Price comparison	International competitive bidding	National competitive bidding	Price comparison	International publicity for consulting	100% national short list
≥25,000,000	<25,000,000 ≥350,000	<350,000	≥1,500,000	<1,500,000 ≥100,000	<100,000	>200,000	≤1,000,000

Note: Processes for consulting services for an amount greater than US\$200,000 equivalent will be announced on the UNDB and IDB websites.

Table 3. Main Procurement Items

Activity	Selection method	Estimated date of call/invitation	Estimated amount (US\$000)
Goods			
Data Center (Hardware) - Work stations. Procurement of 10,000 work stations to replace obsolete hardware estimated for 2018-2022 with five years of support.	ICB	Feb-18	4,698.4
Connectivity of operational ports - updating technological infrastructure	ICB	Jun-18	4,015.2
Updating network assets (routers/switches in facilities). Supplying, installing, configuring, and implementing switches and routers in LAN networks in AFIP facilities throughout the country.	ICB	Mar-18	2,700.0
Procurement and consulting assignment to implement IBM QRadar (SIEM)	ICB	Mar-18	1,098.6
Firms			
Integrated risk management. Integrated risk model	QCBS	Mar-18	1,914.0
Integrated risk management. Updated SIM	QCBS	May-18	2,325.3
Management model - self management and quick service booth modules	QCBS	Jul-17	2,275.0
Individuals			
Management model - CMR	LOI - 3 CV	Feb-17	2,275.0

* To access the 18-month [procurement plan](#).

B. Procurement supervision

- 5.7 Procurements will be supervised on an ex ante basis, except for price comparisons and individual consulting services, which will be done on an ex post basis. Ex post review visits will be performed every 12 months. Ex post review reports will include at least one physical inspection visit selected from the procurement processes subject to ex post review. At least 10% of the contracts reviewed will subject to physical inspection during the program.

Table 4. Ex Post Review Thresholds

Price comparison	Individual consulting service
<100,000	<50,000

Note: The thresholds established for ex post review are applied on the basis of the executing agency's fiduciary execution capacity and may be modified by the Bank to the extent that this capacity changes.

C. Special provisions

- 5.8 **Measures to reduce the likelihood of corruption:** Compliance with policies set forth in documents GN-2349-9 and GN-2350-9 as they relate to prohibited practices (lists of ineligible individuals and companies from multilateral organizations).

D. Records and files

- 5.9 As AFIP is responsible for program procurement, documentation of procurement processes will be in its offices. For ex post reviews, records and files must be properly organized, classified, and updated with all documentation created by procurement and contracting processes.

VI. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

A. Programming and budget

- 6.1 In accordance with Decree 1,399/2001, Article 1, "...the funds of the Federal Administration of Public Revenues will be composed primarily of: (i) a percentage of the total net revenue from taxes and customs funds, whose application, collection, audit, or tax enforcement is the responsibility of the Federal Administration of Public Revenues; and (ii) revenues not envisaged herein as established by the General Budget for National Administration."
- 6.2 The program execution unit will be responsible for formulating and programming the annual budget, in addition to carrying out all procedures conducive to the consolidation of the annual budget for its approval.
- 6.3 No problems are anticipated in terms of budgetary management, local counterpart timeliness, or system delays affecting execution.

B. Disbursements and cash flow

- 6.4 AFIP uses its own financial management system: the Integrated Administration Management and Monitoring System (SIGMA). For this reason, it does not use the Treasury Single Account, making its payments instead through its own cash assets.
- 6.5 Disbursements will be based on a detailed financial plan, the format for which has been agreed upon with officials of the Ministry of Finance and the Office of the Cabinet Chief.

C. Accounting, information systems, and reports

- 6.6 The program execution unit will use the UEPEX as the financial management system. Accounting will be on a cash flow basis, following International Financial Reporting Standards, when applicable, in accordance with established national criteria. The required financial reports will be: (i) the financial execution plan for up to 180 days following the request for an advance; (ii) audited annual financial statements, as stipulated in Article 7.03(a) of the General Conditions of the Loan Contract; and (iii) other reports as requested by the fiduciary specialists.

D. Internal control and internal auditing

- 6.7 The national internal control body is the Office of the Comptroller General. Internal audit of each executing agency is conducted through the Internal Audit Unit. This unit, reporting directly to the Minister, is responsible for conducting audits and making recommendations in accordance with the powers conferred under Law 24,156 (Financial Administration Act).

E. External control: external financial auditing and program reports

- 6.8 In 2011, the Bank concluded a diagnostic assessment of the governmental audit practices of the Office of the Auditor General (AGN), in accordance with the Bank's guide for determining the level of development of public financial management systems. The evaluation concluded by validating the AGN as the auditor for Bank projects.
- 6.9 The AGN reports to the National Congress and helps it monitor the status of public sector accounts. Its creation and operations are regulated in Title VII, Chapter I of Law 24,156, the Financial Administration and External Control Systems Act. The AGN is set up as a separate legal entity with operational independence: it therefore has financial independence, with its capital consisting of the assets allocated to it by the national government, assets that formerly belonged to the Tribunal de Cuentas de la Nación [National Audit Court], and those transferred by court order.
- 6.10 In October 2014, in light of the AGN's record concerning the timeliness of audited financial statements in recent years, an agreement was reached with the Argentine government to reduce the AGN's portfolio in keeping with its actual performance capabilities.
- 6.11 In order to retain flexibility and be able to adjust the loan portfolio to the audit capacity of the AGN, it is recommended that both the AGN and independent firms be contractually eligible to conduct audits of the program.

F. Financial supervision

- 6.12 The initial financial supervision plan reflects the risk and fiduciary capacity evaluations performed on the basis of onsite and desk reviews planned for the program, and includes the scope of operational, financial, and accounting activities, compliance and legality, frequency, and identification of parties responsible.
- 6.13 In addition to the reports required for processing disbursements and the annual audit, a financial plan will be requested for the program's financial supervision.

G. Execution mechanism

- 6.14 The details of program execution are found in the draft Operating Regulations and in the main operation document.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/18

Argentina. Loan ___/OC-AR to the Argentine Republic
Program to Enhance the Management Capacity of the
Federal Administration of Public Revenue (AFIP)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Argentine Republic, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the Program to Enhance the Management Capacity of the Federal Administration of Public Revenue (AFIP). Such financing will be in the amount of up to US\$100,000,000, from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ 2018)